

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Jackson District Library	County Jackson
Fiscal Year End December 31, 2006	Opinion Date May 22, 2007	Date Audit Report Submitted to State June 15, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Markowski & Company, CPAs		Telephone Number 517-782-9351		
Street Address 2880 Spring Arbor Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Douglas Atkins		License Number 1101016353

**JACKSON DISTRICT LIBRARY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

# MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS  
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K. LAVERNE MARKOWSKI, C.P.A.  
RONALD L. MARKOWSKI, C.P.A.  
DOUGLAS E. ATKINS, C.P.A.

**MEMBERS:**  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

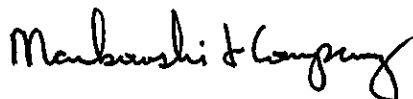
Board of Trustees  
Jackson District Library  
Jackson, Michigan

We have audited the accompanying financial statements of the **JACKSON DISTRICT LIBRARY**, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Jackson District Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Jackson District Library as of December 31, 2006, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

The Management's Discussion and Analysis, required supplementary information, and additional information presented on pages 2-5, 22-24 and 25-26 respectively are not a required part of the basic financial statements but are supplementary financial information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



MARKOWSKI & COMPANY CPAs  
Jackson, Michigan  
May 22, 2007

## **Management's Discussion and Analysis**

### **Introduction**

This discussion and analysis of the Jackson District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2006.

### **Financial Highlights**

- The Library assets at the close of December 31, 2006 exceeded its liabilities by \$4,235,092 (net assets). Of this amount, unrestricted net assets of \$1,997,247 may be used to meet the Library's ongoing obligations.
- The total net assets of the Library increased by \$259,646 during the year.
- At the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$2,446,601 a decrease of \$399,071 in comparison with the prior year. Approximately 93% or \$2,276,282 of unreserved fund balance is available for spending at the Library's discretion. Of this amount, 64% or \$1,445,693 has been designated by the Library's board for specific uses including building upgrading and expansion, technology, and other board plans.

### **Overview of Financial Statements**

This audit report consists of the independent auditor's report, management discussion and analysis, basic financial statements, required supplementary information and additional information.

The basic financial statements comprise government-wide financial statements and fund financial statements focusing on the Library in more detail. The financial statements also contain notes to explain some of the information in the statements and provide more detailed data.

### **Government-Wide Financial Statements**

The government-wide statements provide information to readers with a broad overview of the Library's finances, similar to the private business sector. The statement of net assets includes information on all of the Library's assets and liabilities, with differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Library's financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as earned but unused vacation leave.

## Management's Discussion and Analysis

In a condensed format, the following shows the net assets and changes to net assets as of December 31, 2006:

	Governmental Activities	
	2006	2005
Assets	\$ 8,365,751	\$ 7,916,042
Liabilities	4,130,659	3,940,596
Net Assets		
Invested in Capital Assets, net	2,080,515	1,396,597
Restricted	157,330	144,778
Unrestricted	1,997,247	2,434,071
Total Net Assets	\$ 4,235,092	\$ 3,975,446
Revenues		
Property taxes	\$ 3,424,130	\$ 3,271,643
State shared revenues	114,433	137,771
Charges for services	226,986	219,164
Penal fines	467,471	532,672
Investment income	170,648	109,659
Contributions and grants	460,906	37,750
Other revenues	21,981	688
Total revenues	4,886,555	4,309,347
Expenditures		
Culture and recreation	4,626,909	4,186,425
Change in Net Assets	\$ 259,646	\$ 122,922

### Fund Financial Statements

The fund financial statements provide more detailed information that is used to help maintain control over the Library's resources. Like other state and local governments, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

### Financial Analysis

As noted earlier, net assets may serve as a useful indicator of the Library's financial position. As viewed in the statement of Government Activities, assets exceeded liabilities by \$4,235,092 and total net assets increased by \$259,646 during the year.

## **Management's Discussion and Analysis**

### **Capital Asset and Long-Term Debt Activity**

The Library's investment in capital assets as of December 31, 2006, amounted to \$2,080,515 (net of accumulated depreciation). This investment in capital assets includes property, equipment and books and related materials. The total increase in the Library's investment in capital assets for the current fiscal year was 49%.

Major capital asset events during the fiscal year included the following:

- A \$360,000 historic building was donated by the Village of Concord to the Library for relocating the current branch location. The \$360,000 was the current value at the date of the contribution.
- \$55,416 was capitalized for architectural fees for future expansion of Library facilities.
- \$581,655 was invested in books and related Library materials.
- \$86,307 was invested in technology/computers; a large part of this was the result of technology grants received by the Library.

### **Funding Issues**

While the Library collected \$3,424,130 in property taxes in 2006, this reflected a modest increase of 4.6% over 2005, compared to a 4% increase in 2005 collections over 2004. Furthermore the \$467,471 in penal fines received in 2006 showed a marked decrease of 12% in 2006 over the 2005 receipts.

Like most other publicly funded governmental units in Michigan, the Library has also been subject to the results of the instability of state revenues in recent years. Likewise, it is affected by Headley Amendment rollbacks and tax abatements which prevent property tax revenues from growing at the original rate of a voted millage. Although the Library passed a 20-year millage at a rate of 1.00 mills in 1996, the current rate has fallen to .8606 of a mill as of December 2006. What this means is that we have to struggle to operate while drawing on reserve funds.

It is also pertinent to note that several of the Library's other revenue sources such as state shared revenues, penal fines and contributions and grants have shown a marked decline over 2005. A significant drop in revenue occurred when the single business tax was totally eliminated for 2006 by the Michigan state legislature. Despite the fact that the single business tax is under review, the future of this revenue source is unknown. At the same time, in the 2007 and 2008 calendar years, significant cuts to state aid are also anticipated. With a limited fund balance, the Library must operate conservatively if it is to maintain its current levels of operation for the remainder of the life of its 20-year millage.

The Library's biggest challenge is its aging physical facilities (4 of which are over 100 years old), all of which have inferior electrical, plumbing and heating systems sorely in need of replacement, and several of which are inaccessible to residents who are physically challenged. Today, 100 years after the Carnegie Library was established in Jackson, the Library's users have greater expectations from the Jackson District Library. It is absolutely critical that the Library significantly upgrade and expand all its facilities to address the challenges posted by our aging and deteriorating facilities and meet the growing demand for Library services countywide.

## **Management's Discussion and Analysis**

### **Funding Issues (Continued)**

It is clear that the need for capital improvements can in no way be financed through either operating or reserve funds. After extensive community feedback, the Board has approved a ballot issue in August 2007 seeking an additional millage levy to fund the cost of expanding and/or renovating all the Libraries facilities as well as any additional operating costs for expanding library services, collections, programs and technology at all Jackson District Library locations. The entire project would be financed through a combination of private fund raising and the public vote. The Board will also need to address the issue of retiree health insurance under new guidelines as set forth by the Government Accounting Standards Board. Currently, individuals who retire from the Jackson District Library and are fully vested receive the added benefit of health insurance. Beginning in 2009, this liability will be required to be recorded in the financial statements of the Library. An actuarial study was completed to determine the amount of this liability and the Board must establish a plan to meet this liability.

### **Budget Priorities for 2007**

Since preparing the Library's budget for 2007 fiscal year, the State's funding to the Library is in peril, the Board will monitor this closely throughout the year to make sure the Jackson District Library maintains a balanced budget. The Library will strive to continue to provide a high level of service in the most cost effective manner possible.

### **Requests for Information**

This financial report is designed to provide a general overview of the revenues it receives for all those with an interest in the Library's finances. Questions concerning any of the information provided in this report should be addressed to the Director or Assistant Director, at 244 West Michigan Avenue, Jackson, Michigan 49201, phone 517-788-4099.

## **FINANCIAL STATEMENTS**



**JACKSON DISTRICT LIBRARY**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2006**

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and cash equivalents	\$ 1,658,364
Investments	900,952
Accounts receivable	36,900
Prepaid expenses	56,797
Property taxes receivable	3,632,223
Capital assets, net	2,080,515
	<hr/>
Total assets	\$ 8,365,751
	<hr/>
LIABILITIES:	
Accounts payable	\$ 12,674
Accrued liabilities	19,173
Accrued payroll	48,092
Deferred property taxes	3,632,223
Deferred revenue	126,473
Noncurrent liabilities:	
Compensated absences	292,024
Total liabilities	4,130,659
	<hr/>
NET ASSETS:	
Invested in capital assets, net	2,080,515
Restricted	157,330
Unrestricted	1,997,247
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Total net assets	\$ 4,235,092
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The accompanying notes are an integral part of these financial statements.

**JACKSON DISTRICT LIBRARY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>  <u>CHARGES FOR SERVICES</u>	<u>GOVERNMENTAL ACTIVITIES</u>  <u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>
<b>FUNCTION/PROGRAMS</b>			
General government	<u>\$ 4,626,909</u>	<u>\$ 226,986</u>	<u>\$ (4,399,923)</u>
<b>GENERAL REVENUES:</b>			
Property taxes			3,424,130
State shared revenues			114,433
Penal fines			467,471
Investment income			170,648
Contributions and grants			460,906
Other revenues			21,981
Total general revenues			<u>4,659,569</u>
Change in net assets			259,646
Net assets - beginning of year			<u>3,975,446</u>
Net assets - end of year			<u>\$ 4,235,092</u>

The accompanying notes are an integral part of these financial statements.

**JACKSON DISTRICT LIBRARY**  
**GOVERNMENTAL FUND BALANCE SHEET**  
**DECEMBER 31, 2006**

	GOVERNMENTAL FUND
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 1,658,364
Investments	900,952
Accounts receivable	36,900
Prepaid expenses	56,797
Property taxes receivable	<u>3,632,223</u>
Total assets	<u>\$ 6,285,236</u>
 <b>LIABILITIES:</b>	
Accounts payable	\$ 12,674
Accrued liabilities	19,173
Accrued payroll	48,092
Deferred property taxes	3,632,223
Deferred revenue	<u>126,473</u>
Total liabilities	<u>3,838,635</u>
 <b>FUND BALANCES:</b>	
Reserved	170,319
Designated	1,445,693
Unreserved/Undesignated	<u>830,589</u>
Total fund balance	<u>2,446,601</u>
 Total liabilities and fund balance	 <u>\$ 6,285,236</u>

The accompanying notes are an integral part of these financial statements.

**JACKSON DISTRICT LIBRARY**  
**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2006**

TOTAL FUND BALANCE - GOVERNMENTAL FUND	\$ 2,446,601
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Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund balance sheet. Net of accumulated depreciation.	2,080,515
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Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds.	<u>(292,024)</u>
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 4,235,092</u></u>
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**JACKSON DISTRICT LIBRARY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-**  
**GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	GOVERNMENTAL FUND
REVENUES	
Property taxes	\$ 3,424,130
State shared revenues	114,433
Coop reimbursement	34,301
Fines and fees	88,256
Video rentals	72,390
Penial fines	467,471
Investment income	170,648
Contributions and grants	460,906
Other revenues	54,020
Total revenues	<u>4,886,555</u>
EXPENDITURES	
Culture and recreation	<u>5,285,626</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(399,071)
FUND BALANCES, BEGINNING OF YEAR	<u>2,845,672</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 2,446,601</u></u>

The accompanying notes are an integral part of these financial statements.

**JACKSON DISTRICT LIBRARY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENT FUND \$ (399,071)

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental funds report capital outlays as expenditures; in the  
Statement of Activities, these costs are allocated over their  
estimated useful lives as depreciation:

Capital outlays 1,122,211

Depreciation expense (438,293)

Increase in non-current liability for compensated absences payable  
is an expense in the statement of activities but is not an expenditure  
in the governmental funds. (25,201)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 259,646

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Jackson District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Jackson District Library:

**A. REPORTING ENTITY**

The Jackson District Library (the "Library") was formed January 1, 1978, from a consolidation of the City of Jackson and County of Jackson Library systems. The Library is governed by an appointed board of trustees with seven-members.

**B. GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the Library.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to users or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION.**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.



**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Library reports the following major governmental fund:

**General Fund**

The General Fund is the general operating fund of the District. It is used to account for all financial resources.

**D: ASSETS, LIABILITIES, AND NET ASSETS**

**Bank Deposits and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and payables**

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets**

Restricted assets consist of cash and investments that have been restricted by the donor at the date of the gift.

A joint venture exists between the Jackson District Library and the Jackson Community College to operate and maintain an automated library system to be shared between the two parties. Cash received from the Jackson Community College is restricted for the maintenance and operation of the system.

**Capital Assets**

Capital assets, which include books and related materials, property and equipment, are defined by the Library as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. (Computers or property and equipment purchased in groups are combined for the purpose of the capital threshold amount.)

**Compensated Absences**

It is the Libraries policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the Statement of Net Assets.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D: ASSETS, LIABILITIES, AND NET ASSETS (Continued)**

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**E. ESTIMATES**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the governmental fund. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is at the line item.

Encumbrance accounting is employed in the government fund. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

During the year ended December 31, 2006, the District incurred expenditures in the General Fund which were in excess of the amounts appropriated. The variances are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Printing/promotions/publicity	37,900	38,289	(389)
Contracted services:			
Professional	36,584	39,667	(3,083)
Other	36,400	37,251	(851)
Mileage reimbursement	12,000	12,339	(339)
Utilities	85,000	86,897	(1,897)
Fax lines	800	822	(22)
Building repairs and maintenance	33,167	35,024	(1,857)
Capital outlay-Buildings	72,313	432,313	(360,000)

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash, cash equivalents, and investments of the District can be defined as follows:

Cash and cash equivalents consist of cash on hand, deposits (checking accounts), and investments with an original maturity no greater than 90 days. Deposits are in one local bank with accounts in its name. Surplus funds are invested in accordance with state law and Board resolutions. Authorized investments include:

- (1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States;
- (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States;
- (3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, and that matures not more than 270 days from the purchased date;
- (4) Repurchase agreements consisting of instruments listed in subdivision (1) above;
- (5) Bankers' acceptances of United States banks;
- (6) Mutual funds registered under the Investment Company Act of 1940, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation;
- (7) Obligations described in (1) through (6) as named above is purchased through an interlocal agreement under the Urban Cooperation Act of 1967;
- (8) Investment pools organized under the Surplus Funds Investment Act, 367 of 1982;
- (9) Investment pools organized under the Local Government Investment Pool Act, 121 of 1985.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the District's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Imprest cash	\$ 1,172
Insured (FDIC)	100,000
Uninsured	<u>1,557,192</u>
	<u><u>\$ 1,658,364</u></u>

The District's deposits are in accordance with statutory authority.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

The Library's investments are categorized below to give an indication of the level of risk assumed by the Library. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Library or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Library's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Library's name.

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>	<u>Cost</u>
Investment - Cash	\$ 1,846	\$ -	\$ -	\$ 1,846	\$ 1,846
Government bonds	-	889,976	-	889,976	887,148
Corporate equities	-	9,130	-	9,130	5,791
	<u>\$ 1,846</u>	<u>\$ 899,106</u>	<u>\$ -</u>	<u>\$ 900,952</u>	<u>\$ 894,785</u>

The corporate equities represent mutual funds donated directly to the Jackson District Library.

**Investment and deposit risk**

**Interest Rate Risk:** State law limits the allowable investments and the maturities of some of the investments. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk:** State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools.

**Custodial Credit Risk:** Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require, and the Library does not have, a policy for deposit custodial credit risk.

**Concentration of Credit Risk:** State law permits allowable investments but does not limit concentration of credit risk.

**NOTE 4: PROPERTY TAXES**

Property tax revenues shown in the General Fund reflect the 2005 District levy of .8642 mills on the assessed valuation of property located in the County as of the preceding December 31st. Assessed values are established annually by the county and are equalized by the State at an estimated 50% of current market value.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4: PROPERTY TAXES (Continued)**

The 2005 levy covers the District's fiscal year of January 1, 2006 to December 31, 2006. The 2005 tax levy became a lien on properties on December 1, 2005, and was substantially collected in early 2006. Taxes became delinquent on March 1, 2006. Taxes receivable - subsequent year, as presented in the Library's financial statements represents the next accounting period's uncollected taxes. Deferred taxes represent the subsequent years taxes both collected and uncollected that are unearned. These amounts are reported as such because the tax bills were issued December 1, 2006 for the 2007 fiscal year revenue.

**NOTE 5: CAPITAL ASSETS**

Capital assets, which include property, equipment and books and related materials, are depreciated using the straight-line method over the following useful lives:

Books	2 to 10 years
Audio Visual	3 years
Circulating Software	3 years
Computer equipment	5 to 7 years
Equipment	5 to 10 years
Building Improvements	15 to 30 years

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Being Depreciated:				
Land	\$ 239,900	\$ 36,000	\$ -	\$ 275,900
Buildings	-	340,897	-	340,897
Building Improvements	56,608	55,416	-	112,024
Books	1,110,135	436,904	17,647	1,529,392
Audio Visual	384,847	137,715	-	522,562
Circulating Software	26,952	7,036	-	33,988
Computer Equipment	125,914	86,307	-	212,221
Equipment	14,942	21,936	-	36,878
Subtotal	1,959,298	1,122,211	17,647	3,063,862
Less Accumulated Depreciation for:				
Land	-	-	-	-
Buildings	-	4,260	-	4,260
Building Improvements	-	125	-	125
Books	327,777	259,635	17,647	569,765
Audio Visual	186,433	131,041	-	317,474
Circulating Software	12,776	8,936	-	21,712
Computer Equipment	30,378	31,064	-	61,442
Equipment	5,337	3,232	-	8,569
Subtotal	562,701	438,293	17,647	983,347
Net Capital Assets Being Depreciated	<u>\$1,396,597</u>	<u>\$ 683,918</u>	<u>\$ -</u>	<u>\$ 2,080,515</u>

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5: CAPITAL ASSETS (Continued)**

Under GASB 34 the Library was not required to retroactively report fixed assets. Accordingly the Library chose not to retroactively report fixed assets prior to the year ending December 31, 2003.

**NOTE 6: COMPENSATED ABSENCES**

Full-time District employees earn vacation and sick leave in accordance with the Library's personnel policies. After one year, all employees are entitled to vacation earned based on length of service, and a maximum of one week may be carried over to the following year. All employees earn sick leave at varying rates.

Upon termination, 50% of accumulated sick leave benefits up to a maximum of 90 work days will be paid by the District after 2 years of service.

Unpaid leave at December 31, 2006, which is not liquidated within the current operating cycle, has been reported in the governmental activities.

**NOTE 7: DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The District contributes to the Michigan Municipal Employees Retirement System. The "System", an agent of multiple employer public employee retirement systems, acts as a common investment and administrative agent for units of local government in Michigan. The District's payroll, for employees covered by the System for the year ended December 31, 2005 was \$1,249,477. Total gross pay for this period for all employees was \$2,290,879.

All full-time employees become a member of the System on the first day of employment, and are completely vested after 6 years of service. Normal retirement begins at age 50-60, depending on years of service. Service retirement allowances are based upon percentages ranging from one to two percent of 5-year final average compensation depending on the benefit program selected, social security coverage, etc. District employees are required to contribute 4 percent of their annual salary to the System. The District is required to contribute the remaining amounts necessary to fund the System based on an actuarial basis specified by statute.

**Plan Assets**

Information for the amount and types of securities included in plan assets is not available from the System. There are no loans from the System at December 31, 2005. Because these assets are held by the Michigan Municipal Employee's Retirement System, they are not reported as assets of the Jackson District Library in these financial statements.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

**Funding Status and Progress**

The "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure, also known as the actuarial present value of credited projected benefits, is intended to (i) help users assess the plan's funding status on a going-concern basis, (ii) assess progress being made in accumulating sufficient assets to pay benefits when due, and (iii) allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

**Funding Status and Progress**

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2005, the date of the most recent actuarial valuation. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually after retirement for persons under Benefit E-2.

At January 1, 2006, the assets in excess of the actuarial accrued liability for the Jackson District Library were \$1,232,836 determined as follows:

**Actuarial Accrued Liability:**

Retirees and beneficiaries currently receiving benefits	\$ 1,733,097
Terminated employees not yet receiving benefits	426,186
Non-vested terminated employees (pending refunds of accumulated member contributions)	20,725
Current employees:	
Accumulated employee contributions, including allocated investment income	383,033
Employer financed	1,119,499
	<hr/>
<b>Total Actuarial Accrued Liability</b>	<b>3,682,540</b>
 Net Assets Available for Benefits, At Cost (Market value is \$4,785,852)	  <hr/>
	<b>4,915,376</b>
	<hr/>
<b>Overfunded Actuarial Accrued Liability</b>	<b>\$ 1,232,836</b>

During the year ended December 31, 2005, the plan for the Jackson District Library experienced a net change of \$20,319 in the excess actuarial accrued liability. The combined change in the actuarial accrued liability resulting from benefit changes, if any, and revisions in actuarial assumptions is \$0.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

**Contribution Requirements and Contributions Made**

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the year ended December 31, 2005, were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

During the year ended December 31, 2005, no employer contributions were made in accordance with contribution requirements determined by an actuarial valuation of the plans as of December 31, 2005. Employee deductions are remitted to the plan monthly.

The effect of changes in actuarial assumptions or methods affecting the December 31, 1995 actuarial valuation and the effect of changes in benefit provisions, if any, on the computed contribution was not computed.

Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

**Ten -Year Trend Information**

Historical trend information, as contained in the actuarial valuations for the periods indicated, is as follows:

<b>Val. Date Dec. 31</b>	<b>Net Assets Available for Benefits</b>	<b>Actuarial Accrued Liabilities</b>	<b>Percent Funded</b>	<b>Overfunded Accrued Liabilities</b>	<b>Annual Covered Payroll</b>	<b>UAL as Percent of Annual Payroll</b>
1996	2,285,878	1,501,438	152%	784,440	762,957	103%
1997	2,717,823	1,964,275	138%	753,548	783,917	96%
1998	3,037,748	2,153,152	141%	884,596	770,757	115%
1999	3,471,090	2,071,554	168%	1,399,536	912,232	153%
2000	3,790,968	2,344,160	162%	1,446,808	988,308	146%
2001	4,061,616	2,616,322	155%	1,445,294	1,111,928	130%
2002	4,172,080	2,899,437	144%	1,272,643	1,130,716	113%
2003	4,462,261	3,366,487	133%	1,095,774	1,304,603	84%
2004	4,719,822	3,507,305	135%	1,212,517	1,194,149	102%
2005	4,915,376	3,682,540	133%	1,232,836	1,249,477	99%

Ten-year trend information presenting the MERS progress in accumulating sufficient assets to pay benefits when due is presented in the January 1, 2006 MERS Comprehensive Annual Report.



**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8: JOINT VENTURE**

The District entered into a joint venture with Jackson Community College on September 25, 1991 to acquire, install, operate, and maintain an automated library system to be shared between the parties. The initial system cost, future additions, upgrades and maintenance are shared by Jackson District Library and Jackson Community College at a 2/3 - 1/3 ratio, respectively. An Opportunity Fund was established with each member depositing \$5,000 in an escrow account. The total balance in the investment account is \$285,527 which is offset by a liability for Jackson Community College's portion of the \$126,473 at December 31, 2006.

**NOTE 9: RESERVED FUND BALANCE/RESTRICTED NET ASSETS**

The amounts reported in the Statement of Net Assets identified as restricted net assets are comprised of the following:

Restricted for shared computerization agreement	\$ 126,473
Restricted for donor imposed restrictions	<u>30,857</u>
Total Reserved Ned Assets	<u><u>\$ 157,330</u></u>

The amounts reported in the Governmental Funds Balance Sheet as reserved/designated fund balance are comprised of the following:

Reserved for shared computerization agreement	\$ 126,473
Reserved for donor imposed restrictions	30,857
Reserved for encumbrances	<u>12,989</u>
Total Reserved Fund Balance	<u><u>\$ 170,319</u></u>
Designated by board action	<u><u>\$ 1,445,693</u></u>

**NOTE 10: RISK MANAGEMENT**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance to manage these risks.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**JACKSON DISTRICT LIBRARY**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenue				
Property taxes	\$ 3,446,600	\$ 3,446,600	\$ 3,424,130	\$ (22,470)
State shared revenues	203,000	115,000	114,433	(567)
Coop Reimbursement	33,000	34,301	34,301	-
Fines and fees	75,000	124,000	88,256	(35,744)
Video Rentals	70,000	72,400	72,390	(10)
Penal fines	700,000	404,000	467,471	63,471
Investment income	75,000	140,000	170,648	30,648
Contributions and grants	30,700	101,201	460,906	359,705
Other revenues	33,200	54,052	54,020	(32)
Total Revenues	4,666,500	4,491,554	4,886,555	395,001
Expenditures				
Salaries and wages	2,600,000	2,500,000	2,452,650	47,350
Board per diem	10,000	8,030	8,030	-
Social security	198,900	198,900	183,575	15,325
Health insurance	504,000	526,950	469,245	57,705
Life insurance	6,000	675	675	-
Unemployment	5,000	2,176	2,176	-
Director's conferences	6,000	6,300	6,264	36
Office supplies	37,000	37,000	36,461	539
Postage	22,000	25,000	24,633	367
Computer supplies	26,000	33,400	32,674	726
Printing/promotions/publicity	50,000	37,900	38,289	(389)
Technical processing supplies	22,000	18,500	18,485	15
Contracted services:				
Professional	142,500	36,584	39,667	(3,083)
Office equipment	30,000	31,233	31,233	-
Building/grounds	70,000	59,000	58,510	490
Software/upgrades	25,000	12,000	11,918	82
Other	50,000	36,400	37,251	(851)
Online computer library catalog	26,000	28,200	28,190	10
Shared computerization maintenance	31,000	31,348	31,306	42
Building and maintenance supply	27,000	18,951	18,860	91
Gifts and memorial materials	-	10,000	7,469	2,531
Professional memberships and dues	7,950	4,636	4,636	-
Subtotal	3,896,350	3,663,183	3,542,197	120,986

**JACKSON DISTRICT LIBRARY**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Expenditures (Continued)				
Staff development	42,800	36,800	36,735	65
Staff recognition	5,000	5,700	5,700	-
Telephone	23,000	38,000	37,624	376
Transportation	8,000	7,700	7,654	46
Mileage reimbursement	15,000	12,000	12,339	(339)
Vehicle repairs and maintenance	3,000	7,312	7,312	-
Insurance and bonds	60,000	51,500	51,408	92
Utilities	100,000	85,000	86,897	(1,897)
Indirect State aid	70,000	57,217	57,217	-
Data lines	53,000	67,001	67,001	-
Internet lines	18,000	4,208	4,208	-
Fax lines	1,500	800	822	(22)
Library programs	63,250	62,000	61,425	575
Recruitment	5,000	2,800	2,793	7
Interloan	750	700	682	18
Miscellaneous	8,000	11,579	3,831	7,748
Word wise	6,000	11,000	10,855	145
Books:				
Hardbound/Trade	421,700	430,700	411,712	18,988
Paperback	12,000	12,000	10,018	1,982
Reference	19,250	19,250	15,174	4,076
Periodicals	42,000	42,000	36,155	5,845
Audio-visual	151,800	151,800	137,715	14,085
Online databases	75,000	75,000	72,458	2,542
Electronic software	8,500	8,500	7,036	1,464
Bindery	1,000	200	156	44
Contingency	10,000	9,000	8,994	6
Building repairs and maintenance	120,000	33,167	35,024	(1,857)
Office equipment	22,575	14,000	13,928	72
Capital outlay-Buildings	-	72,313	432,313	(360,000)
Capital outlay-Computers	80,000	86,600	86,307	293
Capital outlay-Other	58,000	21,936	21,936	-
Total Expenditures	5,400,475	5,100,966	5,285,626	(184,660)
Net Change in Fund Balances	(733,975)	(609,412)	(399,071)	210,341
Fund Balance, beginning of year	2,845,672	2,845,672	2,845,672	-
Fund Balance, end of year	\$ 2,111,697	\$ 2,236,260	\$ 2,446,601	\$ 210,341

**JACKSON DISTRICT LIBRARY**  
**PENSION SYSTEM SCHEDULE OF FUNDING PROGRESS**  
**DECEMBER 31, 2006**

Schedule of Funding Progress:

<b>Val. Date Dec. 31</b>	<b>Net Assets Available for Benefits</b>	<b>Pension Benefit Obligation (PBO)</b>	<b>Percent Funded</b>	<b>Assets in Excess of PBO</b>	<b>Annual Covered Payroll</b>	<b>PBO as a Percent of Annual Covered Payroll</b>
1993	1,719,555	1,164,936	148%	554,619	852,996	65%
1994	1,856,723	1,275,094	146%	581,629	757,400	77%
1995	2,039,871	1,436,809	142%	603,062	742,610	81%
1996	2,285,878	1,501,438	152%	784,440	762,957	103%
1997	2,717,823	1,964,275	138%	753,548	783,917	96%
1998	3,037,748	2,153,152	141%	884,596	770,757	115%
1999	3,471,090	2,071,554	168%	1,399,536	912,232	153%
2000	3,790,968	2,344,160	162%	1,446,808	988,308	146%
2001	4,061,616	2,616,322	155%	1,445,294	1,111,928	130%
2002	4,172,080	2,899,437	144%	1,272,643	1,130,716	113%
2003	4,462,261	3,366,487	133%	1,095,774	1,304,603	84%
2004	4,719,822	3,507,305	135%	1,212,517	1,194,149	102%
2005	4,915,376	3,682,540	133%	1,232,836	1,249,477	99%

## **ADDITIONAL INFORMATION**

**JACKSON DISTRICT LIBRARY**  
**STATEMENT OF ACTIVITIES - DETAIL**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**EXPENSES:**

Salaries and wages	\$ 2,452,650
Board per diem	8,030
Sick and vacation wages	25,201
Social security	183,575
Health insurance	469,245
Life insurance	675
Unemployment	2,176
Director's conferences	6,264
Office supplies	36,461
Postage	24,633
Computer supplies	32,674
Printing/promotions/publicity	38,289
Technical processing supplies	18,485
Contracted services:	
Professional	39,667
Office equipment	31,233
Building/grounds	58,510
Software/upgrades	11,918
Other	37,251
Online computer library catalog	28,190
Shared computerization agreement	31,306
Building and maintenance supply	18,860
Gifts and memorial materials	7,469
Professional memberships and dues	4,636
Staff development	36,735
Staff recognition	5,700
Telephone	37,624
Transportation	7,654
Mileage reimbursement	12,339
Vehicle repairs and maintenance	7,312
Insurance and bonds	51,408
Utilities	86,897
Indirect State aid	57,217
Data lines	67,001
Internet access lines	4,208
Fax lines	822
Library programs	61,425
Recruitment	2,793
Interloans	682
Miscellaneous	3,831
Subtotal	<u>4,011,046</u>

**JACKSON DISTRICT LIBRARY**  
**STATEMENT OF ACTIVITIES - DETAIL**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**EXPENSES: (Continued)**

Word wise expenses	10,855
Periodicals	36,155
Online databases	72,458
Bindery	156
Contingency	8,994
Building repairs and maintenance	35,024
Office equipment	13,928
Depreciation	438,293
Total expenditures	<u>4,626,909</u>

**REVENUE:**

Property taxes	3,424,130
State shared revenues	114,433
Charges for services	226,986
Penal fines	467,471
Investment income	170,648
Contributions and grants	460,906
Other revenues	21,981
Total revenues	<u>4,886,555</u>

Excess of Revenues Over (Under) Expenditures 259,646

Net Assets - Beginning 3,975,446

Net Assets - Ending \$ 4,235,092



# MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD

JACKSON, MICHIGAN 49203

PHONE (517) 782-9351

FAX (517) 782-0599

K. LAVERNE MARKOWSKI, C.P.A.  
RONALD L. MARKOWSKI, C.P.A.  
DOUGLAS E. ATKINS, C.P.A.

**MEMBERS:**  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS  
ESTATE PLANNING COUNCIL  
OF SOUTH CENTRAL MICHIGAN

Board of Trustees  
Jackson District Library  
Jackson, MI 49201

We have audited the general purpose financial statements of the Jackson District Library for the year ended December 31, 2006, and have issued our report thereon dated May 22, 2007. Professional standards require that we provide you with the following information related to our audit.

## **Our Responsibility under Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 12, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Jackson District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

## **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Jackson District Library are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the Jackson District Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Jackson District Library that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed several audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Jackson District Library's financial reporting process.

As part of our engagement, we also recorded several accrual entries which were considered part of the normal accounting for the District. This was in accordance with past practice. The accrual entries included those for receivables and accrued expenses.

### **Disagreements with Management**

For purpose of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

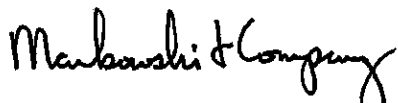
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Jackson District Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit. We were very pleased with the cooperation of the administrative staff. There were two points which we did want to bring to the Board's attention; these points are discussed in the attached Memorandum of Comments and Recommendations.

This information is intended solely for the use of the Board of Trustees and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

A handwritten signature in cursive script that reads "Markowski & Company".

MARKOWSKI & COMPANY, CPAs  
May 22, 2007

**ACCOUNTING MEMORANDUM  
COMMENTS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**GASB 43 AND 45 OTHER POSTEMPLOYMENT BENEFITS**

The Jackson District Library provides health insurance to retirees who qualify under the Library's current policy. New accounting pronouncements will require the Library to account for the unfunded liability beginning January 1, 2009. The Library board has begun discussing this issue and we recommend that the board continue its discussion to determine the steps the Library will take to account for these obligations.

**EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. As detailed in Note 2 of the financial statements the Library incurred expenditures in excess of amounts appropriated in one area. The Library does an excellent job of monitoring and amending the budget and the single expenditure in excess of appropriation was minor compared to the overall budget.

**SEGREGATION OF DUTIES**

Because of the limited size of the Jackson District Library's accounting staff, proper segregation of duties cannot be accomplished. This is an inherent weakness in the internal controls of the Library. The Library's management needs to continue to exercise appropriate management oversight to help compensate for the lack of staff. The only corrective action would be to hire additional staff, which is not practical.

**PURCHASE ORDERS**

The Library's finance department uses purchase orders to purchase needed services and materials. Purchase orders allow the Library to clearly communicate their intentions to sellers, indicating the type, quantities and agreed prices for products or services that the seller will provide to the buyer.

Purchase orders protect the Library as to agreed upon terms and conditions such as payment, date of service, etc. During our audit we found several instances of invoices being received by the finance department for goods or services for which no purchase order had been initiated. We recommend that all departments request and obtain purchase orders prior to initiating purchases of goods or services in the future.